

# Supplement 2-10 to Agenda Item 6

**Audits of Less Complex Entities – ED-ISA for LCE – Q4(a) - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE? If not, why and what changes (clarifications, additions or other amendments) need to be made?**

**Please distinguish your response between the: Specific prohibitions**

**Section 4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\1) Yes**

## **3. Regulators and Audit Oversight Authorities**

### **Botswana Accountancy Oversight Authority**

Agreed, no suggested changes.

## **4. National Auditing Standard Setters**

### **Compagnie Nationale des Commissaires aux Comptes and Conseil Supérieur de l'Ordre des Experts-Comptables**

We agree with the proposed limitations relating to the use of ED-ISA for LCE, both in terms of specific prohibitions and qualitative characteristics. We also agree that audit firms are responsible for establishing policies or procedures in relation to the permitted use of ED-ISA for LCE.

With respect to the Authority's specific areas of the draft ISA, the IAASB will have to amend the draft standard to take into consideration the new PIE definition of the International Code of Ethics for Professional Accountants (including International Independence Standards).

### **Federación Argentina de Consejos Profesionales de Cs. Económicas**

We do not have comments on the specific prohibitions (sections A.5. To A.7.)

### **Hong Kong Institute of Certified Public Accountants**

In general, we agree with the proposed limitations relating to the use of ED-ISA for LCE, which consider an entity's complexity from a range of perspectives.

### **Institute of Chartered Accountants of India**

We agree with "Specific prohibitions" given in the Authority of the Standard.

## **5. Accounting Firms**

### **Famme & Co. Professional Corporation**

We believe the specific prohibitions are clear and complete.

## **6. Public Sector Organizations**

### **Audit Scotland**

Yes.

### **Government Accountability Office (USA)**

The proposed limitations identified in the Authority are sufficient. The inclusion of specific prohibitions and qualitative characteristics provide sufficient depth for considering the types and nature of entities that are not within scope of an LCE.

## **7. Professional Accountancy and Other Professional Organizations**

### **Chamber of Auditors of the Republic of Azerbaijan**

We basically agree with the proposed limitations on application of ED-ISA for LCE.

### **Chamber of Financial Auditors of Romania**

Our opinion is that the specific prohibitions as well as qualitative limitative characteristics are deemed necessary and we agree with those proposed in the standard.

### **Chartered Governance and Accountancy Institute in Zimbabwe**

We agree with the proposed limitations relating to the use of ED-ISA for LCE.

### **Federation of Accounting Professions of Thailand**

Yes.

### **Indonesian Committee on Public Accountant Profession (KPAP)**

Response: We agree with the proposed limitations relating to the use of ED-ISA for LCE.

### **Institute of Chartered Accountants of Ghana**

All the entities listed above seem to have a degree of complexity to them that would not be appropriate for this ED-ISA for LCE. We agree with their exclusion. We do not have any additions or subtractions to this group of specific prohibitions.

The limitations related to Specific prohibitions all seem to be in order.

### **Instituto Salvadoreño de Contadores Públicos (ISCP)**

Answer:

Yes, we agree with the proposed limitations, both for: a) specific prohibitions; and b) qualitative characteristics. It has been considered to leave out those entities for which their activities or type of transactions are complex and at the same time it is presumed that it is also to safeguard the “public interest”, such as: entities that collect funds from the public; Anyhow, it was also taken into account that the legislative or regulatory authorities or the relevant local organizations can include their own limitations.

## **9. Individuals and Others**

### **Vera Massarygina**

Response: a) Specific prohibitions are clear;

## **Section 4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\2) Yes With Comments\Align to IESBA Definitions**

## **7. Professional Accountancy and Other Professional Organizations**

### **CPA Australia**

The term “public interest characteristics” clearly identifies the entities for which the LCE standard is unsuitable, although that term would benefit from alignment with the outcome of the IESBA project on the definitions of listed entity and public interest entity in due course and by national standard-setters with relevant terminology used at the jurisdiction level. If the IAASB and IESBA have different views about the definitions of listed entity and public interest entity, it is imperative that the two boards reach a common outcome. If this is not possible, differences must be clearly articulated.

### **Institute of Certified Public Accountants of Cyprus**

Response: We agree with the approach taken in relation to defining specific classes of entities for which the use of the standard is prohibited. These should be aligned with the IESBA’S Exposure Draft Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code.

### **Instituto dos Auditores Independentes do Brasil**

Regarding terminology used in the Authority, we suggest that the IAASB work closely with IESBA in terms of the IESBA project to consider the global definition of PIEs. Alignment to the IESBA PIE definition would remove some of the complexity whilst still taking into account jurisdictional differences, quantitative

thresholds etc., as these factors are also under consideration by IESBA and it would be preferable to have both a globally consistent baseline as well as alignment in terms of qualitative principles.

Yes. We agree with the limitations including listed entities and group audits.

### **Union of Chambers of Certified Public Accountants of Turkey (TURMOB)**

As stated in footnote 16 of the ED, IESBA's PIE definition should not only be considered, but also advocated for adoption to enhance comparability and consistency of implementation worldwide.

## **Section 4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\2) Yes With Comments\Other Comments**

### **3. Regulators and Audit Oversight Authorities**

#### **Canadian Public Accountability Board**

Should the IAASB decide to proceed with issuing a final ISA for LCE standard, the scope of the standard should not include listed entities, entities who may plan to become listed or group audits.

### **5. Accounting Firms**

#### **ETY sas**

Refer to our response to question 3(a).

We generally support the Specific Prohibitions (paragraphs A5-A7) - unless paragraph (d) (see our comments on section 5) - contained in the Authority of the proposed Standard.

#### **Mazars**

The two categories: Specific exclusions (A3-7) and Qualitative aspects (A8-9) are clear. But the challenge is the definition of PIE differs from one jurisdiction

We agree with (a) and (b) but in our view, the priority should be first given to the audit of single entities without waiting for group audit being incorporated. See further under responses to questions 22 through 26.

### **7. Professional Accountancy and Other Professional Organizations**

#### **CPA Australia**

We support the specific prohibitions and qualitative characteristics limiting the use of the standard. We reiterate that a post-implementation review can consider whether changes are needed based on the experiences of implementation.

#### **Eurasian Group of Accountants and Auditors**

In general, we support the express prohibitions introduced by the standard, since entities with such characteristics should not be classified as LCEs. At the same time, we believe that additional clarifications on the issue of evaluating the complexity of nonprofit entities should be prepared for paragraph A5.

#### **Self-Regulatory Organization of Auditors Association (SRO AAS)**

We almost agree with the proposed limitations relating to the use of ED-ISA for LCE. Specific limitations may be set at the jurisdiction level.

In general, we support the direct prohibitions introduced by the standard, since entities with such characteristics should not belong to less complex entities. At the same time, we believe that additional explanations on the issue of assessing the complexity of non-for-profit organizations should be introduced for para A5.

## **Section 4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\3) No or Unclear With comments\3a) Comments on Listed Entities\Agree with Exclusion of Listed**

### **4. National Auditing Standard Setters**

#### **Canadian Auditing and Assurance Standards Board**

Many stakeholders, particularly regulators, broadly supported the proposal to prohibit the use of ISA for LCE for listed entities. They agreed with the IAASB that such entities might be of significant public interest, and therefore, regardless of complexity, they should be excluded from the scope of the ISA for LCE. However, some practitioners noted that the implication of this exclusion is that many junior listed LCEs in Canada, that may benefit from the standard, would be prohibited from using it.

AASB views and recommendations

We agree that all listed entities, regardless of size or complexity, should be excluded. We acknowledge stakeholders' concerns that many junior listed LCEs would be included in this prohibition. However, if such entities were not prohibited, ED-ISA for LCE would have to include requirements applicable to listed entities. This would add to complexity of the standard and defeat the purpose of having a streamlined audit standard for LCEs.

#### **Indonesian Institute of Certified Public Accountants (IAPI)**

Some stakeholders in our jurisdiction have argued that a complete prohibition on listed entities ignores the fact that there are many "simple (not complex)" listed entities. However, we agreed that, regardless of complexity, the risk of allowing judgement to be applied to listed entities with public interest exposure is significant.

Also refer to point 22 and 24 for additional comments.

### **5. Accounting Firms**

#### **BDO International**

With respect to listed entities, it is possible that some of them may meet the qualitative definition of less complex. However, we concur that audits of listed entities should be prohibited from using the LCE standard as it would be in the public interest and it is unlikely that their regulators would accept an LCE audit report.

#### **HLB International**

We agree with the exclusion of listed entities.

#### **PriceWaterhouseCoopers**

With respect to listed entities, we recognise that groups often set up corporate structures with listed holding companies for tax and other reasons. While such entities may hold very few assets and liabilities, in our view, the risks of permitting some form of exemption for certain classes of listed entities outweigh the perceived benefits. There is a consequential cost of choosing to establish a listed entity. Therefore, we support the proposed prohibition.

### **7. Professional Accountancy and Other Professional Organizations**

#### **Association of International Accountants**

AIA agrees with the prohibitions in respect of:

- Listed entities

#### **Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants**

In relation to the specific prohibitions in the standards, there is general support for the exclusion of entities with public interest characteristics, however we heard mixed feedback on whether all listed entities should be excluded. In some jurisdictions, due to the nature of the local markets, some listed entities can be relatively simple and listing itself, does not necessarily increase the complexity of the audit. Nevertheless, we agree that on balance the exclusion of listed entities is in the public interest.

## Nordic Federation of Public Accountants

Based on the fact that the ISAs include specific requirements for listed entities that are not duplicated in the draft LCE standard, we also support excluding listed entities in A.7 (b) from the scope.

## Section 4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\3) No or Unclear With comments\3a) Comments on Listed Entities\Disagree with blanket restriction on Listed Entities

### 4. National Auditing Standard Setters

#### Australian Auditing and Assurance Standards Board

A consistent view we heard was that the authority of the proposed standard is too narrow and illogical, particularly because the proposed ED-ISA for LCE Standard is designed to achieve reasonable assurance and includes the same requirements as the ISAs, but still can't be used, for example, on any listed entities or group audits.

Specifically, the AUASB does not support the blanket prohibition of listed entities and public interest entities (PIEs) using this standard. The AUASB considers that the blanket prohibition may unintentionally undermine confidence in the proposed standard, creates the perception that audits performing using the proposed LCE standard represent a different assurance product and takes limited account of the complexity of the entity. The proposed standard is designed to achieve reasonable assurance with the requirements underpinned by the ISAs with the work effort expected to be same under the separate standard. Accordingly, the AUASB supports that the proposed LCE standard could be applied on less complex listed entities and PIE audits, and believe that the IAASB could establish more specific criteria around which listed entities and PIEs may be included in the scope of the standard. For example, Australia has a large number of small listed entities in the start-up and extractive industries which would not be considered complex audit engagements where audit practitioners consider the proposed ED-ISA for LCE Standard could be applied.

#### Austrian Chamber of Tax Advisors and Public Accountants (KSW)

We believe that the proposed limitations in paragraph A.7.(b) – listed entities – are too narrow. There could be very small, listed entities without any complex transactions and only a few shareholders.

#### Public Accountants and Auditors Board Zimbabwe

Listed entities – we do support the blanket conclusion that listed entities are complex. In recent years we have seen licencing of new exchanges to actually cater for small to medium entities or less complex entities and the requirements in those exchanges are much more relaxed than the traditional exchanges. We do not think that listing a company on an alternative exchange market will necessarily make it complex.

### 5. Accounting Firms

#### Crowe Macro Brazil

We agree with the view of those stakeholders that are against the prohibition of including listed entities among the entities that should not be considered 'less complex' as the analysis of whether "the standard is appropriate to use for an audit should be made based on complexity only, and therefore that smaller, 'straightforward' listed entities" should be eligible to be audited applying this ISA for LCEs. For example, what level of complexity should present a SPAC (or similar structure) particularly during the period when the funds are not yet invested in acquisitions? Somehow, it contradicts the concept that ISA for LCEs will result in appropriate and sufficient evidence on which to base an audit opinion.

#### Grant Thornton International Limited

Whilst we appreciate the intent of a blanket prohibition for listed entities, we recommend that consideration is given to allowing jurisdictions to determine the types of listed entities that are prohibited from the using the LCE Standard for the following reasons:

In a number of jurisdictions, there are types of listed entities that are not complex in nature and do not have a board public interest impact. For example, junior mining companies that only incur expenditures.

For the purposes of applying the requirements of the ISAs, entities that meet the definition of a listed entity may be determined differently. For example, the UK Financial Reporting Council (FRC) excludes stock or debt that is ‘in substance not freely transferable or cannot be traded freely by the public or the entity’ from its definition of listed entity.

## 7. Professional Accountancy and Other Professional Organizations

### Pan-African Federation of Accountants (PAFA)

Listed entities – we do support the blanket conclusion that listed entities are complex. In recent years we have seen licencing of new exchanges to actually cater for small to medium entities or less complex entities and the requirements in those exchanges are much more relaxed than the traditional exchanges. We do not think that listing a company on an alternative exchange market will necessarily make it complex.

## 8. Academics

### Accounting and Finance Association of Australia and New Zealand

Some listed companies are considerably less complex than others.

We note that listed entities, in particular, are specifically excluded from using the standard. While many listed entities are likely to be complex, complexity is not a precondition for listing, and many listed companies could be categorized as less complex entities. Our analysis of Australian listed entities (see Appendix B) suggests that this is the case in Australia, and we believe that it is a result that would apply in many other jurisdictions.

In Australia, a large proportion of listed entities have audits that appear to be conducted on a small scale and are not complex. The lowest decile, representing the 10% of companies with the lowest audit fees, has mean audit fees of \$A14,000 (see Table 1 in Appendix B). These entities are not complex and would be scoped into the standalone standard if it was not for the fact that they are listed. Indeed, it is not until we examine the top 40% of listed companies that the mean audit fee exceeds \$A100,000, at which point it would be reasonable to assume that all entities would be sufficiently complex so as to render the standalone standard inappropriate (and for which the application of the qualitative criteria would effectively highlight that the standalone standard would not be appropriate). In the lower 60% of listed entities, there are likely to be entities that are considered more complex, and entities considered less complex.

To the extent that the proposed self-contained standard for LCEs achieves a reasonable level of assurance and sufficiently captures provisions that currently apply to listed entities (e.g., the reporting of KAMs in the Auditor’s Report), an audit of these less complex entities should be manageable with reference to the proposed self-contained standard.

We do not discount the public interest arguments for excluding listed and other public interest entities from the use of the standard (notwithstanding that they may be less complex), but believe that this can be effectively addressed within the discretion afforded to individual jurisdictions in paragraph A7c(v). It is reasonable to acknowledge the existence of various characteristics among different jurisdictions. Minnis and Shroff (2017) document that private firms face differing financial disclosure and auditing regulations around the world. For example, private firms are generally neither required to disclose their financial results nor have their financial statements audited in US and Canada. By contrast, many firms with limited liability in other countries are required to file at least some financial information publicly and are also required to have their financial statements audited. We believe that it is appropriate for individual jurisdictions to make informed decisions, on the basis of their individual circumstances, about when the proposed standalone standard can be employed.

## **Section 4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\3) No or Unclear With comments\3a) Comments on Listed Entities\Other Comments**

## 5. Accounting Firms

### Baker Tilly International

Some listed (and other public interest) entities are also straightforward audits such as those for many providers of post-employment benefits. By excluding “public interest entities” from scope of the ISA for LCE the IAASB is enabling a perception that the LCE audit gives less assurance than an ISA audit.

### RSM International

The ED-ISA for LCE should include a definition of a “recognized stock exchange” as this may vary between jurisdictions. This definition will need to indicate whether secondary or tertiary markets are included, given that these can all be accessed by the public in some jurisdictions.

## 7. Professional Accountancy and Other Professional Organizations

### ASEAN Federation of Accountants

Some respondents questioned the Board’s proposal to introduce a definite prohibition on listed entities. An entity that for all other aspects meet the criteria for an LCE but own a simple investment in a non-listed entity may be required to conduct a fair value assessment and thus, be considered as non-LCE. Moreover, some listed entities whose sole purpose is to serve as holding companies could potentially satisfy the characteristics of an LCE. However, there are views that in order to enable this standard to be used for certain listed entities, there must safeguards to prevent any perception by stakeholders that could be detrimental to these listed entities arising from the use of a different set of auditing standard as compared to other listed entities.

### ASSIREVI

We agree with the exclusion of listed entities from the proposed standard’s scope but note that the definition provided in the Authority Supplemental Guide for such entities (Entities, whose shares, stocks or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body) is not consistent with the definition of public interest entities as per European legislation (entities ... whose transferable securities are admitted to trading on a regulated market). The reference to a “recognized stock exchange” rather than a “regulated market” could give rise to interpretative and application difficulties.

We note the IESBA’s proposal with respect to the ED “Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code” issued in January 2021 to replace the term “listed entity” with the new term “publicly traded entity”. We agreed with this proposal as long as it is clear that the publicly traded entities solely include those active on a regulated market, as per the above European regulation. Entities active on a “recognized stock exchange” are normally subject to different and less strict rules compared to those applicable to companies admitted to a “regulated stock exchange”. This choice, adopted in most jurisdictions, aims at creating an alternative to the admission to trading of financial instruments on regulated markets, allowing for less onerous requirements and less complex rules (considering as well, often, the less complex nature of these entities and their smaller public interest) when these instruments are listed on unregulated markets. Consequently, we believe it would not be appropriate to consider entities listed on “recognized stock exchanges” in the same way as those whose securities are traded on “regulated stock exchanges”. Indeed, this would mean not taking into account the significant differences existing among the rules governing those markets, as specifically enacted by local legislators.

### International Federation of Accountants’ Small and Medium Practices Advisory Groups

As the IAASB will be aware, the IESBA has also recently made changes to the definition of a PIE and listed entities which should be considered during finalization of this standard. We believe that achieving consistency between the IAASB and IESBA is critical as in practice it is problematic when differences exist between definitions and expressions used.

### Nordic Federation of Public Accountants

In the IESBA’s new PIE definition, the former sub-group of “listed entities”, has now been replaced by the broader term “publicly traded entity”, in which listed entities are included. We encourage the IAASB to also

consider what impact using that broader term might have in this context, both in terms of whether to include “publicly traded entities” to the prohibition list itself and the possibility for legislative or regulatory authorities or relevant local bodies with standard-setting authority to provide modifications within this category of entities.

### **South African Institute of Chartered Accountants (2)**

There must be a clear and definite link to the “definitions of “Listed entity” and “Public interest entity” as both these types of entities are prohibited from using the LCE standard. A suggestion is that both these definitions are included in the LCE standard and that specific examples be included in the EEM paragraphs making reference to listed and PIE entities. For these definitions and the link to be effective and supporting the appropriateness and relevance of this prohibition there must be consistency between the LCE standard and the definitions included in the IESBA Code of Ethics.

## **Section 4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\3) No or Unclear With comments\3b) Public Interest Characteristics\A5 needs to be Clearer**

### **3. Regulators and Audit Oversight Authorities**

#### **Independent Regulatory Board for Auditors (IRBA)**

Paragraph A.5 of the proposed standard states the following:

“Entities that have public interest characteristics could embody a level of complexity in fact or appearance and are specifically prohibited from using the [draft] ISA for LCE.”

The prohibition quoted above may result in challenges and/or inconsistencies when attempting to implement the proposed standard in the public sector. The indicators of public interest in the proposed standard seem to be relating mostly to public/private entities.

The classes of entities with public interest characteristics that are specifically prohibited, as per paragraph A7 of the proposed standard, are also entities that are likely to have complex transactions. Jurisdictions or audit firms may interpret the prohibition in paragraph A5 of the proposed standard to also require the exclusion of public sector entities by virtue of the implied level of public interest in the public sector, regardless of a specific public entity not having a significant impact on a large number of stakeholders, or complex transactions. Such an interpretation may then preclude totally the use of the proposed standard in the public sector.

We suggest that the prohibition be in relation to the complexity that is brought about by certain public interest characteristics and not by the public interest characteristics themselves.

Further, it should be noted that entities do not use the ISA for LCE; rather, the ISA for LCE is used by auditors for the audit of entities.

As such, we suggest the following rewording to paragraph A5:

“The draft ISA for LCE is specifically prohibited from being used for entities that have public interest characteristics that embody a level of complexity in fact or appearance.”

Further, refer to our response to question 3(a).

### **4. National Auditing Standard Setters**

#### **Canadian Auditing and Assurance Standards Board**

Stakeholders generally agreed with prohibiting ISA for LCE for the classes of entities in paragraph A.7.(c). Like listed entities, these entities could have significant public interest and should be audited using the ISAs. However, specific sub-sets within the classes of entities in paragraph A.7.(c) may include very simple entities. Consequently, our stakeholders also agreed with the IAASB’s proposal in paragraph A.6 to allow individual jurisdictions to modify the classes of entities in paragraph A.7.(c) to permit specific sub-sets within a class to use the standard.

Many stakeholders asked for clarity about whether other entities exhibiting public interest characteristics (not listed in paragraph A.7.(c)) are also excluded from the scope of ED-ISA for LCE. Examples of such entities are those that follow International Public Sector Accounting Standards (such as municipalities, local school

divisions, and indigenous groups) or not-for-profit and cooperative organizations. The source of their confusion was paragraph A.5.

Paragraph A.5 makes a blanket statement that entities with public interest characteristics could embody a level of complexity in fact or appearance and are specifically prohibited from using the ISA for LCE.

Stakeholders read paragraph A.5 as standalone to suggest that other public interest entities need to be identified and considered for exclusion in addition to the categories in paragraph A.7.(c). Stakeholders did not make the connection that the public interest characteristics referenced in paragraph A.5 are those set out as prohibitions in paragraph A.7.

AASB views and recommendations

We agree with prohibiting entities with public interest characteristics from using ED-ISA for LCE. However, we believe that some revisions are necessary to address concerns around clarity. We suggest the following: Clarify the linkage between paragraphs A.5 and A.7 to address the confusion as to whether the classes of entities in paragraph A.7.(c) are the only exclusions related to public interest characteristics. We suggest moving paragraph A.7 before paragraph A.6 to help improve the flow.

Clarify that other public interest entities, such as those that follow International Public Sector Accounting Standards, or not-for-profit and cooperative organizations, are within the scope of the standard.

## 5. Accounting Firms

### BDO International

In addition, paragraph A.5 refers to an entity embodying a level of complexity through appearance. We would challenge how an entity practically appears more complex without first understanding the entity and determining its specific risk profile. This approach could seemingly promote boilerplate thinking as generic risk assessment is assumed.

### MNP LLP

Public interest characteristics

We believe that further clarification is needed with regards to public interest characteristics that may unduly prohibit a practitioner from using the LCE standard where it is otherwise an appropriate choice. We perform audits for Indigenous groups, municipalities, and local school divisions who all follow Public Sector Accounting Standards. Although these groups may be in the public interest, they generally are not complicated entities and are likely to be eligible for the LCE standard when considering the qualitative considerations. However, stakeholders may be confused or apprehensive about LCE standards which may deter their use. We also perform audits for not-for-profits and cooperatives which are less complex however they may be perceived as being or actually are in the public interest, even though they don't meet the characteristics per paragraph A.7(c) in the ED. We recommend adding essential explanatory material for paragraph A.5 to specify that ISA for LCE may be appropriate even for public sector entities, not-for-profit organizations, or cooperative entities.

### PKF International Limited

Paragraph A.5 (Specific Prohibitions)

Paragraph A.5 within the Specific Prohibitions of ED-ISA for LCE does not appear to serve a clear purpose of its own and, in our view, it may result in confusion.

Paragraph A.5 specifies that entities that have public interest characteristics could embody a level of complexity in fact or appearance and are specifically prohibited from using the [draft] ISA for LCE. Within the Specific Prohibitions section of Part A there is no apparent explanation on the relevance of A.5 to the requirements of paragraph A.7 which, in our view, will cause confusion as to how users should apply the requirements in A.5 in context of applying the requirements of A.7.

There is no cross-reference back to paragraph A.5 elsewhere within ED-ISA for LCE, which leaves the paragraph hanging within this section of the Authority without a clear indication to the user as to how to interpret and apply it.

Given the clear functions and the self-contained nature of paragraphs A.7 and A.6 we believe there is a risk that Paragraph A.5 is redundant to this section's overall purpose of setting out the specific prohibitions of using ED-ISA for LCE. This problem is compounded by the lack of any further direct explanation or definition in the main body of the proposed standard by the term "public interest characteristics" which is used in paragraph A.5.

## **6. Public Sector Organizations**

### **Swedish National Audit Office**

First of all, we are not objecting to using reference to public interest, but we would like to underline that this may have an implication for implementing the standard in the public sector.

#### **Public interest**

The draft refers to public interest in A5. All entities within the public sector have some level of public interest, otherwise they would not exist. This applies even if they are very small and non-complex and it is very important that the standard does not become too prescriptive outing any use in the public sector.

The limitations section is complex and difficult to understand. As public sector auditors we would like to highlight that the limitations given may lead to a situation where you exclude the standard to be used in the public sector. Our environment is quite different from the private sector and there are also differences between different public sectors. The limitations are problematic mainly because of two factors: using the reference to public interest in A5.

We believe that the authority section is the most important part of the standard, as the limitations of its applicability would also drive the level of audit requirements. If you only allow the standard to be used for low-risk entities the audit requirements could be less detailed. Of course, not to that extent that it would affect the audit quality negatively.

The most unclear part is the Limitations section which could impact the implementation of the standard. This lack of clarity could lead to unintended consequences such as difficulties in applying the standard it in the public sector

a variety of different interpretations of when the standard is applicable due to unclear definitions.

As public sector auditors we would like to highlight that the limitations given may lead to an interpretation where you exclude the standard from being used in the public sector. Our environment is quite different from the private sector and there are also differences between different public sectors. The limitations are problematic, mainly because of:

using the reference to public interest

stating that the standard may not be used for entities whose main function is to take deposits from public funds.

You may find our detailed comments on the limitation section as response to question 4.

Section Firms and auditors address the responsibilities of the audit firm for the implementation etcetera. It is unfortunate that the public sector is not addressed in this section. We would suggest that you address public sector auditors in this section. For example, it could be highlighted that public sector auditors (such as Supreme Audit Institutions) are responsible for implementing procedures etcetera,

public sector audits or public sector audit standard setters (if they exist) are responsible for defining their own limitations for the use of the standard, based on the suggested criteria in this standard.

## **7. Professional Accountancy and Other Professional Organizations**

### **Finnish Association of Authorised Public Accountants**

Paragraph A.5. is confusing. Does it add something to the list given in A.7. or is it more like an argument leading to subsequent paragraphs? Paragraphs A.5. and A.6. could be removed. The IAASB could consider dividing the restrictions in three parts; absolute restrictions, those that can be amended by local authorities and those that are qualitative characteristics. See also comments to question 4.b)

### **Institute of Chartered Accountants in England and Wales**

The reference to entities with PIE characteristics that 'appear' complex in A.5 is too subjective to be helpful.

### **Nordic Federation of Public Accountants**

In our view the rationale behind the drafting of paragraph A.5. is unclear and confusing. For example, entities that could embody a level of complexity in fact or appearance are not limited to entities with public interest characteristics. Complexity is not even a particular distinctive public interest characteristic. Also, the phrase “in fact or appearance” is mostly used in relation to independence matters. Using that phrase in relation to complexity is confusing and it raises questions, for example, how – and who – should determine whether an entity embodies a level of complexity in appearance? The way complexity is linked to public interest in the prohibition section is not obvious and perhaps not even necessary; most likely the entities covered by A.7. (c) (i)-(iv) would be outside of the scope of the standard anyway based on the qualitative characteristics listed in A.8. and A.9.

In this regard, we do not think that the Supplemental Guidance provides any additional clarity (see also our response to question 5 a). In our view, paragraph A.5. should be deleted.

## South African Institute of Chartered Accountants (2)

Although the classes of entities with public interest characteristics which are specifically prohibited as per par A7 are also entities that are likely to have complex transactions, jurisdictions or firms may interpret the prohibition in par A5 to also require the exclusion of public sector entities that do not have a significant impact on a large number of stakeholders, or have complex transactions and therefore preclude the use of the standard in the public sector.

The LCE standard should indicate that the prohibition is driven by the complexity that is brought about by certain public interest characteristics and not by the public interest characteristics themselves.

Proposed wording: Entities that have public interest characteristics could that embody a level of complexity in fact or appearance and are specifically prohibited from using the [draft] ISA for LCE.

Paragraph A5: The specific prohibition quoted in this paragraph may result in challenges and inconsistencies when attempting to implement the standard in the public sector. The indicators of public interest in the proposed standard seem to be covering mostly public and private entities, therefore, different indicators of public interest for public sector entities might need to be considered.

There is a view that all public sector entities exhibit a level of public interest, however the number of stakeholders and the extent to which they are directly impacted by the services provided by the public sector entity can be considered in determining the level of public interest e.g. refer to inclusion in definition of PIE in IRBA code 400.8 “Major Public Entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country”

## **Section 4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\3) No or Unclear With comments\3b) Public Interest Characteristics\Disagree – Post Employment Funds**

### 5. Accounting Firms

#### Azets Audit Services

Similarly, from our experience in the UK, we do not agree that post-employment benefit providers such as pension schemes are implicitly complex in all cases and that they should be included at the ED-ISA for LCE Specific Prohibitions Level.

#### BDO International

Specific prohibition: entities whose function is to provide post-employment benefits: There are certain post-employment benefit plans that are very simple (e.g., self-managed superannuation funds, personal pension plans, defined contribution benefit plans, etc.) that would be scoped out of this standard. We would question whether all entities designed to provide post-employment benefits are inherently complex. A definition of post-employment benefit plans that are prohibited would help ensure consistency of application.

#### HLB International

However, we do not agree that an entity that meets one of the noted criteria in paragraph 51(c) of this section should be automatically excluded from accessing ED-ISA for LCE. For example, some entities that provide post-employment benefits are small, non-complex entities and would be inappropriately excluded.

## Nexia Smith and Williamson

We do not agree that the specific prohibitions should include all entities whose function is to provide post-employment benefits. The majority of such entities that we audit provide benefits to few people and have little complexity.

## Price Bailey LLP

In addition it appears all pension scheme audits would also be excluded yet we have a number of small ones which are not complex.

Not all pension schemes are complex and therefore should not all be excluded.

## 6. Public Sector Organizations

### Swedish National Audit Office

The limitations section is complex and difficult to understand. As public sector auditors we would like to highlight that the limitations given may lead to a situation where you exclude the standard to be used in the public sector. Our environment is quite different from the private sector and there are also differences between different public sectors. The limitations are problematic mainly because of two factors:

stating that the standard may not be used for entities whose main function is to take deposits from public funds.

post-employment benefits. What falls into the category of post-employment benefits. For example, post employee-benefits could be standardized in some jurisdictions and imply low risk from an accounting perspective depending on how you define post employee-benefits.

## 7. Professional Accountancy and Other Professional Organizations

### Association of Practising Accountants

It is also unclear whether this standard could be adopted for charities and academies based on the current drafting e.g academies usually have defined benefit pension schemes.

Response: It is unclear whether pension scheme audits would be able to apply this standard as they may fall within the definition of– “an entity whose function is to provide post-retirement benefits”. A number of small pension scheme audits within the UK would be less complex and should not be excluded from adopting this standard.

### Institute of Certified Public Accountants of Uganda

We are of the view that certain exceptions should be made for retirement benefit schemes (entities that provide post-employment benefits), collective investment entities, as well as group audits. In our jurisdiction, there are many retirement benefit schemes, which are not complex and have a limited number of users (usually restricted to provision of services to employees of a single entity). They also tend to have straightforward investments, limited to within the country. These entities should be included within the scope of the standard.

### Institute of Chartered Accountants in England and Wales

Practitioners noted that pension funds can be among the simplest audits they do.

## **4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\3) No or Unclear With comments\3b) Public Interest Characteristics\Disagree with PI Prohibition - General**

## 4. National Auditing Standard Setters

### Australian Auditing and Assurance Standards Board

Specifically, the AUASB does not support the blanket prohibition of listed entities and public interest entities (PIEs) using this standard. The AUASB considers that the blanket prohibition may unintentionally undermine

confidence in the proposed standard, creates the perception that audits performing using the proposed LCE standard represent a different assurance product and takes limited account of the complexity of the entity. The proposed standard is designed to achieve reasonable assurance with the requirements underpinned by the ISAs with the work effort expected to be same under the separate standard. Accordingly, the AUASB supports that the proposed LCE standard could be applied on less complex listed entities and PIE audits, and believe that the IAASB could establish more specific criteria around which listed entities and PIEs may be included in the scope of the standard. For example, Australia has a large number of small listed entities in the start-up and extractive industries which would not be considered complex audit engagements where audit practitioners consider the proposed ED-ISA for LCE Standard could be applied.

## **Section 4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\3) No or Unclear With comments\3b) Public Interest Characteristics\Editorials or Language**

### **4. National Auditing Standard Setters**

#### **Public Accountants and Auditors Board Zimbabwe**

“main functions’ use of this term may lead to application of judgement where it is not necessary. We believe that as long as an entity takes deposits from the public even if it is not the main function, it should be prohibited.

### **5. Accounting Firms**

#### **BDO International**

Paragraph 58 of the Explanatory Memorandum allows for specific sub-sets of engagements to be permitted. It is not clear how many of a specific class may be permitted. The ED states that an entire class may not be removed, but would that indicate that all but one would be ok? The ED does refer to paragraphs 18–20 of the Authority Supplemental Guide to provide guidance on when this might be appropriate, but as this is a supplemental guide, its authority could be challenged and therefore there may be potential for inconsistent application.

In paragraph A.7.(c), further clarification is requested regarding ‘an entity one of whose main functions is to provide insurance to the public’. We assume this would not include insurance brokers or other intermediaries, but it would be helpful if the LCE standard provided that clarification.

#### **Grant Thornton International Limited**

. Further, the prohibition of an entity with ‘public interest characteristics’ includes a number of criteria that prohibit the use of ED-ISA for LCE based on the ‘main function’ of the entity subject to audit. There is currently no guidance on how to determine or measure what would be an entity’s ‘main function.’ ED-ISA for LCE also allows for modification of these criteria, albeit through further restrictions, which gives rise to further inconsistent implementation of the standard.

#### **KPMG IFRG Limited**

We also note the following suggestion for further clarification/ consideration: certain aspects of the scoping decisions focus on the “main purpose” of the business, however, the intention behind describing these characteristics may also be important for other entities engaging in these activities, even if this is not their main purpose. We suggest the IAASB consider describing entities that engage in these activities to a significant extent, but not necessarily being the main purpose.

### **6. Public Sector Organizations**

#### **Office of the Auditor General of Alberta**

One area within the Authority that is not clear is “public interest characteristics.” How is “public interest characteristics” defined? Are they limited to investor/lender interests or do they include public sector interests? We believe public sector entities should not be automatically prohibited from using ISAs for LCE and the definition of “public interest characteristics” needs to clarify that public sector entities are not automatically excluded from the ISA for LCE due to “public interest characteristics.” Due to the fact, ED-ISA for LCE includes guidance for public sector entities, we do not believe it is the intent to exclude public sector

entities, however clearly stating this fact would be beneficial. If ED-ISA for LCE is using the same definitions of ISAs, then ISA 210 should include a conforming amendment to specifically define “public interest characteristics.”

## Swedish National Audit Office

Our suggestion

To ensure that the standard is applicable in the public sector we would like to suggest that you clearly state that any public sector auditor such as supreme audit institution may define when the standard is applicable or not depending on the specific audit environment. We would suggest avoiding using expressions and wordings which could lead to the standard not being applicable in the public sector. Terminology used should be defined and clear.

Unclear definitions and terminology

The other criteria for when the standard should not be used is a bit unclear and could also have an impact on the implementation in the public sector. We refer to the criteria in 51 c). or A7 part c. in the draft

(c) An entity meets one of the following criteria:

An entity one of whose main functions is to take deposits from the public;

Almost all our entities are funded by public funds. This could imply that the standard would not be applicable in the public sector. There are terms used which we have difficulties in understanding such as “main function”. What would main function mean in practice?

post-employment benefits. What falls into the category of post-employment benefits. For example, post employee-benefits could be standardized in some jurisdictions and imply low risk from an accounting perspective depending on how you define post employee-benefits.

## 7. Professional Accountancy and Other Professional Organizations

### ASSIREVI

We believe that the wording used may be too generic, as it refers to a wide range of entities that cannot always be determined ex-ante with sufficient certainty.

As an example, with reference to paragraph A.7 (c) (i) (An entity one of whose main functions is to take deposits from public) and (ii) (An entity one of whose main functions is to provide insurance to the public), it is not always easy to determine when the activities mentioned therein actually represent the “main function” of the relevant entity. Such an assessment would end up being guided by an unavoidable margin of discretion and could result in an inconsistent application in practice. The Authority Supplemental Guide provides guidance about this as it establishes that professional judgement is used to determine an entity’s main function.

Moreover, since - according to the Guide - the term “one of whose main functions” is used in order to capture entities that have other main functions such as credit and lending but also to exclude those entities for which deposit-taking or insurance is not a main function, the wording used may give rise to different interpretations in the various national legislative frameworks. For example, at the moment, at European level, banking and insurance companies qualify as PIEs regardless of whether they carry out these activities on a primary, secondary or exclusive basis and, therefore, they have to be considered as public interest entities and, hence, excluded from the proposed standard’s scope. This might not be the case in other jurisdictions.

### Chartered Accountants Ireland

We believe the Authority of the standard could benefit from further clarity to ensure it is capable of consistent implementation. The Authority of the standard sets out certain prohibitions because it is assumed such entities are complex, in particular in relation to the entities set out in paragraph A.7.(c) further clarity is need with regard what is meant by terms such as “main functions”, “deposits from the public”, “provide insurance to the public”. Furthermore, certain of the entities listed in paragraph A.7.(c) may not have any associated complexity, for example a pension fund with a small number of beneficiaries.

### Institute of Certified Public Accountants of Kenya

Authority – Specific Prohibitions

We suggest that the IAASB consider the following enhancements:

Provide a clearer link between the term “entities that have public interest characteristics” (paragraph A5) and the entities referred to in paragraphs A6-A7. Although paragraph A5 is true, it does not flow through to paragraphs A6-A7.

### **Malta Institute of Accountants**

The statement ‘An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public;’. Does this cover all types of collective investment schemes or those which have more of a public interest e.g. retail schemes?

### **Pan-African Federation of Accountants (PAFA)**

“main functions’ use of this term may lead to application of judgement where it is not necessary. We believe that as long as an entity takes deposits from the public even if it is not the main function, it should be prohibited.

### **South African Institute of Chartered Accountants (2)**

Paragraph A 7: Our suggestion that the “main function” be defined and linked to a specific measure [e.g.: 60% or more of the entity’s activities = main function].

## **Section 4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\3) No or Unclear With comments\3b) Public Interest Characteristics\Other Comments**

### **5. Accounting Firms**

#### **Baker Tilly International**

Some listed (and other public interest) entities are also straightforward audits such as those for many providers of post-employment benefits. By excluding “public interest entities” from scope of the ISA for LCE the IAASB is enabling a perception that the LCE audit gives less assurance than an ISA audit.

#### **BDO International**

In paragraph A.7.(c), further clarification is requested regarding ‘an entity one of whose main functions is to provide insurance to the public’. We assume this would not include insurance brokers or other intermediaries, but it would be helpful if the LCE standard provided that clarification.

Paragraph 58 of the Explanatory Memorandum allows for specific sub-sets of engagements to be permitted. It is not clear how many of a specific class may be permitted. The ED states that an entire class may not be removed, but would that indicate that all but one would be ok? The ED does refer to paragraphs 18–20 of the Authority Supplemental Guide to provide guidance on when this might be appropriate, but as this is a supplemental guide, its authority could be challenged and therefore there may be potential for inconsistent application.

#### **Crowe Macro Brazil**

Under our point of view, only a small proportion of public interest entities (PIEs) will qualify to be audited applying this IS for LECs. So, the restriction is useless and inconvenient.

### **6. Public Sector Organizations**

#### **Australian Council of Auditors General**

Limitations with applying the proposed standard

ACAG has concerns that offices may be unable to apply the ED ISA - LCE based on certain specific prohibitions within it. The ED ISA - LCE states that it cannot be applied to audits: where entities have public interest characteristics.

It can be argued that jurisdictional audit office mandates are legislated only to audit in the public interest. Clearly defining what a public interest characteristic is for the purpose of the standard will be important. A consequence of the term ‘public interest characteristics’ not being clearly defined is the automatic exclusion of public sector entities

## Swedish National Audit Office

In addition, we would suggest that the standard to a larger extent focuses on disqualifying entities with significant risk. This could be done under the qualitative factor section (A8-A9) by stating that entities with for example the following risks should be excluded:

significant risks in general and especially risk for accounting estimates  
potential risks for going concern, fraud  
large and complex transactions with complex accounting principles.

The circumstances in paragraphs A8–A9, describing the qualitative factors, are quite many. We think that there should be some additional clarification where the auditor needs to consider an overall conclusion taken all the factors into consideration.

As public sector auditors we would like to highlight that the limitations given may lead to an interpretation where you exclude the standard from being used in the public sector. Our environment is quite different from the private sector and there are also differences between different public sectors. The limitations are problematic, mainly because of:

using the reference to public interest

stating that the standard may not be used for entities whose main function is to take deposits from public funds.

## 7. Professional Accountancy and Other Professional Organizations

### ASSIREVI

With respect to the classes of entities, other than listed entities, indicated in the Authority as entities that usually have public interest characteristics and, as such, are specifically excluded from the scope of the proposed standard, we believe that critical application issues may arise as a result of the choice to define a list of high-level classes of such entities.

Similarly, the identification of the entities listed under sub-paragraph (c) (iii) of paragraph A.7 (An entity whose function is to provide post-employment benefits) does not appear straightforward and could lead to inconsistent applications, and consequent impacts on the performance of the audit, depending on the specificities of national systems.

It is therefore our view that, in order to avoid uncertainties and the lack of consistency which would result from the introduction of too broadly defined criteria, as explained above, the proposed standard should set out very clearly defined classes of entities where use of the ED-ISA for LCE is prohibited. Alternatively, if the Board wishes to maintain the broad definitions, it should then only set more precise guidelines for the authorities in each jurisdiction, which would have full authority to classify an entity as prohibited from the use of the standard.

However, we have an issue with the general assumption that entities with public interest characteristics, other than listed entities, cannot be considered LCEs and, hence, fall under the specific prohibitions of the proposed standard given the two different categories. Indeed, even if listed companies are excluded, there still can be less complex entities with public interest characteristics. Moreover, the possibility left in the adoption and enactment process to individual jurisdictions to amend (but not remove) the classes of entities as per paragraph A.7 (c) (i)-(iv) - by defining sub-classes - could partly resolve this issue. Although the public interest characteristics of some entities could require the application of rules not currently included in ED-ISA for LCE, the emphasis on public interest characteristics as the discriminating element in the decision about the proposed standard's scope, considering the intention or requirement to protect public interests, could imply again that the audit of an LCE conducted in accordance with the proposed standard would not give the same degree of assurance as an audit conducted in accordance with the ISAs.

## Association of International Accountants

AIA agrees with the prohibitions in respect of:

An entity with public interest characteristics (such as banking, insurance or pension companies)

## **Institute of Certified Public Accountants of Uganda**

The approach adopted in ED-ISA for LCEs should allow for use of the Standard in audits of public sector entities, cooperatives entities and not-for-profit organisations, subject to jurisdictional restrictions. Although these groups may have public interest characteristics, many such entities are generally not complicated and are likely to fulfil the qualitative considerations of the LCE standard. We recommend additional explanatory material to specify that ISA for LCE may be appropriate even for not-for-profit organizations, or cooperative entities.

Within our jurisdiction, a number of retirement benefit schemes and collective investment schemes are small, less complex and have a small user or membership base.

In the circumstances, the ISA for LCEs would have scoped such entities into the prohibitions (because the broad class is prohibited) when they, in fact, do not exhibit public interest characteristics. We therefore support the view that the proposed standard allows for the ability to 'modify' these classes of prohibited entities through:

Explicitly permitting a specific sub-set within a class to be able to use the proposed standard; and  
Introducing further classes of entities prohibited from using the proposed standard.

## **Institute of Chartered Accountants of Namibia**

The Authority lists entities that may not use the standard e.g., listed entities, entities that take deposits, etc. There are however other entities that should fall outside of the standard that may not meet these characteristics. We recommend that the list in the authority refer to "Public Interest Entities" instead. This would ensure that all relevant entities within a jurisdiction could be covered. This would also limit debate as to whether public interest entities not listed in the authority could use the draft standard.

## **Malta Institute of Accountants**

The statement 'An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public;'. Does this cover all types of collective investment schemes or those which have more of a public interest e.g. retail schemes?

## **Nordic Federation of Public Accountants**

Regarding the structure of the entire A.7., we refer to our response to question 3 c).

We agree with the scope itself in A.7. (c) (v). However, at a jurisdictional level we expect this paragraph primarily to be used by setting size criteria on an overall basis for general application of the draft standard regardless of the entities' public interest characteristics. We encourage the IAASB to consider whether this broader objective would be clarified if the content in (v) would not be drafted as a sub-group to A.7 (c), but rather be drafted as a separate sub-group to A.7. Also, we suggest clarifying in A.11 (b) that setting specific size criteria could be used as a general baseline for use of the standard.

## **South African Institute of Professional Accountants**

Paragraph A6 states: Legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class described in paragraph A.7.(c) but a class cannot be removed. The paragraph should clarify on how these authorities and or local bodies can modify these classes.

Paragraph A6 states: Legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class described in paragraph A.7.(c) but a class cannot be removed. The paragraph should clarify on how these authorities and or local bodies can modify these classes.

## **8. Academics**

### **Brunel University London**

More context and definition is required regarding public interest entities and those entities with distinct nature such as charities, trusts, etc. where external stakeholders may be impacted by adoption of LCEs.

## **9. Individuals and Others**

### **ASK KSA Consulting Inc.**

See comments made above with respect to areas that require clarification.

There are unintended consequences related to public interest characteristics and the specific prohibitions. The definition of a public interest is not clear and therefore there may be certain entities that would otherwise be classified as less complex but due to specific prohibition, would not qualify. The definition of a public interest characteristics should be clarified.

For example, a simple not-for-profit organization that receives funding from the government has public interest characteristics and therefore would be specifically prohibited from using the standard.

Another example is a daycare that receives government funding and is required to follow many provincial laws and regulations. In many cases, these daycares have reporting requirements outside the audit and therefore could qualify as a “public interest” entity. However, the audits of these types of organizations are typically straight forward and therefore it does not make sense to preclude them from using the standard.

In addition, these types of organization are tight for funding and the cost of administrative functions, such as an audit is always top of mind. The cost is not a driver, but, cannot be ignored. The purpose of the standard is to perform a quality audit and obtain reasonable assurance while at the same time allowing the audit to be more efficient. Is they one of the objectives of the proposed standard to help auditors save time, and perform a quality audit?

## **Section 4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\3) No or Unclear With comments\3c) Align to IESBA Definitions**

### **4. National Auditing Standard Setters**

#### **Canadian Auditing and Assurance Standards Board**

Additionally, we recognize that the International Ethics Standards Board for Accountants (IESBA) removed certain entities when it finalized its definition of public interest entity. We suggest that the IAASB consider updating paragraph A.7.(c) to align with the final IESBA definition as part of the IAASB’s upcoming project on the definition of public interest entity.

#### **Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)**

In line with the current discussions at IESBA, which we expect to be reflected in the final Code of Ethics, we believe that the specific prohibitions in paragraph A.7 (c) (iii) and (iv) should be deleted, because these types of entities need not be associated with the public interest characteristics and are not always complex.

### **5. Accounting Firms**

#### **Baker Tilly International**

It introduces complexity when the ISA for LCE describes its own version of “public interest characteristics”. There are significant differences around the world in what is held to be public interest. This is not an area where the IAASB needs to be introducing another definition and it is not an area that requires greater commonality. There should be greater flexibility allowed for the scoping issue at jurisdiction level.

#### **KPMG IFRG Limited**

Regarding terminology used in the Authority, we suggest that the IAASB work closely with the IESBA in terms of the IESBA project to consider the global definition of PIEs. Alignment to the IESBA PIE definition would remove some of the subjectivity whilst still taking account of jurisdictional differences, quantitative thresholds etc. as these factors are also under consideration by the IESBA and it would be preferable to have both a globally consistent baseline as well as alignment in terms of qualitative principles.

We also note the IESBA considerations in respect of the definition of a listed entity, with the intention to broaden this out from its current anchoring to a “recognised stock exchange”. We suggest that the IAASB work closely with the IESBA in this regard. However, as we noted in our respond to the IESBA following its consultation in this area, we believe it is important to establish a global baseline as far as is possible, and we note concerns with reliance on jurisdictional regulators/ standard-setters to establish additional parameters to make this workable in practice, as they may not do so and this could lead to

inconsistency and potentially have unintended consequences. Please also refer to our response to part c) below, which we also consider may give rise to unintended consequences.

We also note the following suggestion for further clarification/ consideration: certain aspects of the scoping decisions focus on the “main purpose” of the business, however, the intention behind describing these characteristics may also be important for other entities engaging in these activities, even if this is not their main purpose. We suggest the IAASB consider describing entities that engage in these activities to a significant extent, but not necessarily being the main purpose.

## **PriceWaterhouseCoopers**

With respect to paragraph A7(c) describing entities with characteristics of a PIE, please see our response to question 3(e). In addition, in light of changes proposed by IESBA in this area the Board may also need to further consider the proposed appropriateness of the “jurisdictional modification” permission granted in the Authority.

## **RSM International**

We acknowledge that there is no global definition of a Public Interest Entity (“PIE”), however the definition used in the ED-ISA for LCE should be consistent with that used by IESBA. This would provide a baseline which could be supplemented by local jurisdictional requirements. Having different definitions of a PIE in auditing and ethical standards causes confusion among users and stakeholders alike.

## **7. Professional Accountancy and Other Professional Organizations**

### **Accountancy Europe**

While finalizing the LCE standard, further changes made by the IESBA to its proposed definition of PIE should be considered by the IAASB for consistency. We believe the paragraph A.7.(c) of the ED ISA for LCE should be aligned with the revised version of the IESBA Code.

### **Finnish Association of Authorised Public Accountants**

The IAASB should, though, align A.7(c) with the newly approved definition of PIE (by the IESBA)

### **Institute of Chartered Accountants in England and Wales**

IAASB should consider the need to revise the proposed authority to accommodate IESBA’s finalised revisions (December 2022) to its Code of Ethics and remove the following categories from its list of exclusions:

- an entity whose function is to provide post-employment benefits;
- an entity whose function is to act as a collective investment vehicle and that issues redeemable financial instruments to the public.

### **Institute of Chartered Accountants of Scotland**

With regards to paragraph A7 C, we assume that the IAASB will consider the need to update the specific prohibitions to align with the IESBA’s finalised revisions (December 2022) to its Code of Ethics arising from its ‘Definition of Listed Entity and Public Interest Entity’ project. This will of course involve consideration of whether the term “listed entity” should be replaced by the term “publicly traded entity” although we appreciate this is likely to form part of a separate IAASB project as any such change would have wider implications.

### **International Federation of Accountants’ Small and Medium Practices Advisory Groups**

As the IAASB will be aware, the IESBA has also recently made changes to the definition of a PIE and listed entities which should be considered during finalization of this standard. We believe that achieving consistency between the IAASB and IESBA is critical as in practice it is problematic when differences exist between definitions and expressions used.

### **Nordic Federation of Public Accountants**

However, we do have concerns about both the content and the drafting approach in A.7. (b) and (c). As mentioned in our response to question 3 (c), basically we do not believe that public interest entities would need to be singled out in the prohibition list since such entities that are also complex would be scoped out

anyway by applying the qualitative characteristics in A.8 and A.9. However, we are ok with including them in the prohibition list as long as these entities are aligned with IESBA's recently approved PIE definition. The entities covered in draft A.7. (b) and (c) (i) – (iv) are entities that in a broader perspective could be considered as having public interest characteristics. These entities were also included in the IESBA's exposure draft Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code as proposed entities to be included in a new PIE definition.

At the December meeting in 2021, the IESBA approved of a new PIE definition, that is more limited in scope than the one that was suggested in the ED. Entities whose function is to provide post-employment benefits and entities whose function is to act as a collective investment vehicle and that issues redeemable financial instruments to the public, were deleted from the final scope. Having applied both the same drafting approach and suggested entities in this draft LCE standard, we strongly recommend the IAASB to align the final scope of entities that have public interest characteristics with the IESBA's final PIE definition. For that reason, we suggest that the entities covered by (c) (iii) and (iv) should be deleted from paragraph A.7. as well. If such entities are complex, the draft standard will still not be applicable on audits of such entities due to an application of the qualitative characteristics in paragraph A.8 and A.9.

## South African Institute of Chartered Accountants (2)

The work being conducted by the IESBA relating to amendments to the Code of Ethics may also have an impact on the authority of the LCE standard. It is important that the LCE standard is aligned with the revisions made in this regard.

There must be a clear and definite link to the "definitions of "Listed entity" and "Public interest entity" as both these types of entities are prohibited from using the LCE standard. A suggestion is that both these definitions are included in the LCE standard and that specific examples be included in the EEM paragraphs making reference to listed and PIE entities. For these definitions and the link to be effective and supporting the appropriateness and relevance of this prohibition there must be consistency between the LCE standard and the definitions included in the IESBA Code of Ethics.

## Section 4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\3) No or Unclear With comments\3e) Explicit Prohibitions (Jurisdictional)

### 4. National Auditing Standard Setters

#### Public Accountants and Auditors Board Zimbabwe

a.i Explicit prohibitions are not necessarily the same with not authorised for use. In some jurisdictions new standards still have to go through a legal process of adoption which is rubber stamping exercise but sometimes take time and the practice on the ground is that entities can already start applying a standard before legal process is complete. We recommend that we only keep explicit prohibitions in that paragraph and leave out the part that talk to standards not being authorised for use.

### 5. Accounting Firms

#### PriceWaterhouseCoopers

We note from outreach that confusion persists about the relationship between the prohibitions in paragraph A7(a)(i) and A7(c)(v). We suggest that part (a)(i) could simply be amended to state that law or regulation may prohibit use of the standard in a jurisdiction for audits of all entities or certain classes of entity.

### 7. Professional Accountancy and Other Professional Organizations

#### Association of International Accountants

AIA agrees with the prohibitions in respect of:

Entities in a jurisdiction where the standard is prohibited

#### Institute of Chartered Accountants of Scotland

At paragraph A13, we wonder whether it would be advisable to highlight: “whether use of the proposed standard is specifically allowed in a particular jurisdiction”?

### **Pan-African Federation of Accountants (PAFA)**

Explicit prohibitions are not necessarily the same with not authorised for use. In some jurisdictions new standards still have to go through a legal process of adoption which is rubber stamping exercise but sometimes take time and the practice on the ground is that entities can already start applying a standard before legal process is complete. We recommend that we only keep explicit prohibitions in that paragraph and leave out the part that talk to standards not being authorised for use.

### **South African Institute of Chartered Accountants (2)**

Paragraph A 7: Reference should be made to not only the LCE standard but to all ISA standards where it is specified by law and/or regulation that the audit is not to be performed in terms of the LCE standard.

### **South African Institute of Professional Accountants**

We agree with Paragraph A.7.(a) of ED-ISA for LCE intention to apply to all classes of entities in a particular jurisdiction where a jurisdiction either does not want to adopt the ED-ISA for LCE, or the jurisdiction specifies other standard(s) instead.

## **Section 4B – Authority of the Standard\Question 4 - Do you agree with the proposed limitations relating to the use of ED-ISA for LCE\Question 4(a) - Specific prohibitions\3) No or Unclear With comments\3x) Other Comments**

### **5. Accounting Firms**

#### **BDO International**

The proposed LCE standard may in principle be applied to public sector entities, but it is unclear how it would actually apply in practice. For example, many public sector entities are group audits, so if the group audits prohibition is retained, they would be excluded. In addition, although public sector entities are not listed in paragraph A.7.(c), the Authority paragraphs could be read to exclude public sector entities as they operate primarily for the benefit of the public interest. Moreover, many public sector entities would be considered to have complex IT which could also exclude them on the basis of qualitative characteristics. Some clarification around whether public sector entities are intended to qualify to use the LCE standard, and the conditions in which this would be happen, would therefore be appreciated.

#### **SRA**

We also do not understand that under A12 the possibility for firms is provided to further limit the use of ISA for LCE. This specifically applies to the stand-alone version of the standard. In our view firms should not be given this authority; the possibility to opt for using ISA for LCE should be given to the engagement partner.

### **6. Public Sector Organizations**

#### **Swedish National Audit Office**

In general, we agree that the standard should not be allowed in the public sector where the law/regulations prohibit it.

### **7. Professional Accountancy and Other Professional Organizations**

#### **Institute of Chartered Accountants in England and Wales**

Other than the matters noted in response to Question 3, above, and subject to the imposition of additional criteria by audit regulators locally, we are broadly content with the other specific prohibitions, even though some LCEs will be excluded. The prohibitions should be considered further once the standard is established and IAASB should emphasise the importance of local reinforcement in this area.

#### **Institute of Chartered Accountants of Scotland**

We are supportive of the IAASB's general approach re prohibiting the use of the proposed standard for certain classes of entities, and in addition, describing those qualitative characteristics that would also make the standard inappropriate to use (i.e., collectively describing when the proposed standard is inappropriate for use because the audit would not be considered an audit of an LCE).

### **Polish Chamber of Statutory Auditors (PIBR)**

Response: I do not accept. Completely new quality solutions must be introduced, including a statistical survey using a representative method.

### **Polish Chamber of Statutory Auditors Warsaw (Regional Branch)**

It should be clear to which engagements the standard is applicable. The list of orders should be closed. It should not be possible to rely on judgment.

### **Saudi organization for Chartered and Professional Accountants**

Taking into consideration what was introduced in points (a) and (b), we found the excessive emphasis on prohibiting or limiting the use of the standard may have unintended consequences on auditors' willingness to apply the standard. Therefore, since we believe that this proposed standard provides clear, direct and understandable guidelines which can help specifically SMPs who mostly provide their services to LCEs, we propose amending the discouraging tone of voice introduced in the ED-ISA for LCEs with a more objective approach (restricting the standard's authority approaches to one approach "qualitative characteristics) which can maintain the core requirements while securing the applicability of the standard.

### **South African Institute of Chartered Accountants (2)**

Another prohibition that may possibly be included is where a bank or any other specified user for whose purposes an audit is performed specifies that the audit engagement should be conducted in terms of the ISAs.

Paragraph A 7: Reference should be made to not only the LCE standard but to all ISA standards where it is specified by law and/or regulation that the audit is not to be performed in terms of the LCE standard.

Paragraphs A6 & A 7: We agree with the principle of "specific restrictions" but these restrictions must be written in such a way that there are no loopholes and it must be clear which circumstances will not allow for the use of the LCE standard.

SAICA's view is that at a local level, the IAASB can engage with regulators and professional accountancy organisations to educate the profession and stakeholders on the underlying principle of 'less complex' to ensure that the LCE standard is not perceived to be as an easier way of auditing that requires a reduced audit fee to be charged.

## **8. Academics**

### **Accounting and Finance Association of Australia and New Zealand**

We do not agree with the use of specific prohibitions and believe that greater emphasis should be placed on jurisdictional discretion, and a greater focus be placed on principles based qualitative criteria.

We believe that there should be no specific prohibitions on the use of a standard for less complex entities, except for discretion afforded to national jurisdictions (as is currently contained in paragraph A7c(v)). Global prohibitions have the potential to constrain public interest benefits from the introduction of the standard for less complex entities, denies the existence of important differences across jurisdictions, and will likely contribute to confusion as to the purpose of the standard and the entities that are, and are perceived to be, less complex but unable to employ the standard. The authority should be focused on assisting stakeholders identify when the standalone standard may not be appropriate on account of its contents not being sufficiently comprehensive to allow for reasonable assurance to be provided.

We base our recommendation on research examining a number of related issues.

There is evidence that entities will voluntarily choose the appropriate level of assurance that suits the requirements of their financial report users.

A large body of research highlights that entities voluntarily opt for high-quality accounting and auditing information to facilitate better access to and conditions in capital markets (e.g., Allee and Yohn 2009; Van Caneghem and Van Campenhout 2012; Vander Bauwhede et al. 2015; Palazuelos et al. 2020; Briozzo and Albanese 2020; Gong et al. 2021). Less complex entities are, themselves, in the best position to decide

whether a reasonable level of assurance is required and, if so, whether this should be achieved via an audit based on the full suite of standards or a self-contained standard for less complex entities. It is likely that entities prohibited from using the standard based on the proposed authority would otherwise prefer to use the proposed standard. Moreover, many entities (especially in developing nations) may look to the proposed standard to enhance confidence in their financial reports. To the extent that entities are explicitly prohibited from using the standard, opportunities for the entity, governments, and others in the financial reporting ecosystem to enhance confidence may be lost.

The need for audited financial reports varies depending on other aspects of the jurisdiction such as shareholder or stakeholder orientation, management practices, and company characteristics. Research suggests that users of small and medium enterprise (SME) financial reports differ across jurisdictions (Gassen 2017). In addition, the need for audited financial reports varies depending on other aspects of the jurisdiction such as shareholder or stakeholder orientation (Barroso et al. 2018), management practices (Niemi et al. 2012; Weik et al. 2018), and entity characteristics (Collis 2010; Dedman et al. 2014; Niemi et al. 2012; Weik et al. 2018). Research also highlights differences in voluntary audits across jurisdictions. In a review of prior studies on this topic, Weik et al. (2018) summarize that companies opting for voluntary audit are less common in Germany (12% of their sample) than in other countries analyzed in prior literature (between 26% and 80% in Australia, Canada, Denmark, Finland, and the UK). We believe, therefore, that globally enforced prohibitions are unlikely to be effective in meeting the unique needs of individual jurisdictions.

## **9. Individuals and Others**

### **Rodoula Roussou**

As noted above in 1(a) the lack of flexibility on the authority of the standard is not helpful. Judgment on the decision about whether the standard is appropriate to use for an audit should be made based on complexity.